

VZCZCXRO7819
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHSB #0898/01 2771051
ZNR UUUUU ZZH
R 031051Z OCT 08
FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC 3521
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE

UNCLAS SECTION 01 OF 03 HARARE 000898

SENSITIVE
SIPDIS

USITC FOR L SCHLITT

E.O.12958: N/A
TAGS: [ETRD](#) [ECON](#) [EAGR](#) [PGOV](#) [ZI](#)
SUBJECT: ZIMBABWE'S RESPONSE TO USITC ON INFRASTRUCTURE

REF: STATE 85109

SUMMARY

11. (U) Zimbabwe's infrastructure has been deteriorating over the past decade of economic decline. Foreign currency shortages, skills flight, and lack of maintenance have been largely responsible for the decline. The deteriorating infrastructure negatively affects the country's export competitiveness as it raises the cost of doing business. A number of firms in the clothing and textiles sector stated that in addition to investing in infrastructure to increase export competitiveness, the government should stabilize the economy and let the forces of supply and demand determine the exchange rate.
END SUMMARY.

Deteriorating Road Infrastructure

12. (U) As of 2007, Zimbabwe had a classified road network of 88,300 km, of which approximately 17 percent was paved. Trunk roads are generally in a fair state of repair, but the condition of urban and unpaved rural roads has deteriorated markedly in recent years. Road maintenance is constrained by a severe shortage of funds.

13. (U) Our discussions with firms in the clothing and textiles sector revealed that roads do not hinder export competitiveness. According to Ms Bortolan of Security Mills Private Limited, the company is not constrained in moving goods by road. Sharing Bortolan's assessment were Chitey Laxmidas of Styles International Private Limited, which exports leisure wear to the U.S., and Jeremy Youmans, Group Finance Director of Paramount Garment Works (Pvt) Limited and Chairman of the Clothing Manufacturers Association. Youmans, in fact, believes that Zimbabwe's road network is a competitive advantage within the region.

14. (SBU) A 2007 World Bank study of roads, railways, water, energy and telecommunications subsectors in Zimbabwe noted that although the formation of a semi-autonomous State Highway Authority (SHA) had been mooted in 2001, it had not taken shape due to uncertainty surrounding funding, hyperinflation, and the shortage of foreign exchange. Moreover, collaboration between government and the private sector enunciated in 2004 through the publication of private public partnership (PPP) policy guidelines has not progressed. The legal instruments required to support policy implementation have not been finalized, even though some trunk roads, such as the route to South Africa, carry sufficient traffic to generate attractive returns on private sector investment. Civil engineer and road expert Rob Geddes told us that the toll fees required to make such a venture profitable may be politically unacceptable. He attributed failure to build the Harare-Beitbridge road to such considerations.

Antiquated Rail Sector

¶5. (SBU) Zimbabwe has 2,760 km of rail track. As of July 2008, there were 165 locomotives, of which only 65 were operational; only 57 percent of the over 10,000 wagons were operational; and only 42 percent of the passenger rail cars were working. According to M.T. Karakadzai, General Manager of parastatal National Railways of Zimbabwe (NRZ), a full train can carry the same amount of cargo as 53 thirty-ton trucks.

¶6. (SBU) Old and failing equipment lowers NRZ's performance and compromises network reliability. According to Karakadzai, out of a design capacity of 18 million tons/year, NRZ is only capable of moving about 7.5 million tons/year. The NRZ's automated centralized train control (CTC) system is also obsolete and subject to vandalism. Karakadzai said that, as of July 2008, 77 percent of the CTC system was not working, resulting in numerous accidents. Zimbabwe's critical skills shortage exacerbates the problem, as most artisans have emigrated to neighboring countries leaving the NRZ with 3,000 vacancies for skilled artisans as of the end of July 2008.

¶7. (U) NRZ must import about 90 percent of its spares, and it requires three million liters of imported diesel per month to operate. The shortage of foreign exchange to purchase spare parts compounds NRZ's problems and compromises its ability to meet customer needs.

¶8. (SBU) While Bortolan said the deterioration of the rail network had not constrained exports, Laxmidas recounted how derailments and cargo handling equipment failure had cost his company an entire consignment of goods destined for the U.S. in 2007. A crane breakdown had delayed the loading of goods onto a container. Once en route, the train was delayed by a derailment along the

HARARE 00000898 002 OF 003

Zimbabwe-Chiqualaquala route to Mozambique, leading to the goods being redirected. By the time the container reached Durban, the ship had left port and the sale was lost. In reaction, Styles International began using costly airfreight to the U.S. to meet tight delivery deadlines.

¶9. (SBU) Youmans also bemoaned NRZ's operations, noting that it failed to supply coal to textile firms for the dyeing process. Youmans calculated that it was twenty times cheaper to move goods by rail than by road, and an efficient rail system therefore would reduce costs significantly and create a competitive advantage in international markets.

¶10. (U) Karakadzai said the NRZ was using its own resources to rehabilitate rolling stock and track. The initiative is expected to put some 2,000 wagons back on track. Another NRZ initiative is to produce spares locally by bringing a former spares supplier to NRZ. Moreover, NRZ bought Fort Concrete in order to manufacture railway sleepers itself. In addition, the NRZ is seeking to invest in private public partnership programs, noting that the build-own-operate model had been used successfully in the construction of the Bulawayo-Beitbridge Railway.

Inadequate Electric Power Generation/Distribution

¶11. (U) Electric power generation from Zimbabwe's power stations falls far short of demand. Zimbabwe's electricity generating equipment is antiquated. The World Bank report states that no major investment in expanding generating capacity has occurred since 1986, although investment in distribution infrastructure in rural areas has increased. In the meantime, Zimbabwe Electricity Supply Authority's (ZESA) customer base has swelled by some 40 percent over the past eleven years and the waiting list for connections has increased tenfold.

¶12. (U) Many transformers are old and overloaded--the urban network is 20-30 percent overloaded. In recent years, maintenance has been less than 10 percent of the planned level. As a result, the number and frequency of breakdowns have increased. In addition, the rate of connecting new clients has fallen sharply and the quality of

service has plummeted. Non-technical losses caused by increased vandalism of distribution equipment have also surged. Thieves, for example, steal transformer oil, leading to breakdowns and to downtime as imported spare parts take months to procure. In the meantime, in a vicious cycle, overloading of other transformers causes more breakdowns.

¶13. (U) A major constraint on ZESA is the shortage of foreign exchange to purchase spare parts and new equipment, and to fill the power shortfall with imported power. This factor plus the exodus of skilled labor to the region are at the root of the decline in service. Many engineers emigrated to South Africa when the former Chief Executive, Sydney Gata, resigned to work for Eskom, the South African utility, leaving a yawning gap in skills and experience.

¶14. (U) Coal supply to Hwange Thermal Power Station is constantly interrupted due to machine breakdowns at the nearby Wankie Colliery. The dragline excavator fails frequently as does the belt that conveys coal to the power plant. The NRZ does not have reliable locomotives, wagons and signaling equipment to move coal to Zimbabwe's other power stations in a cost effective manner.

¶15. (U) Youmans underlined that the textiles sector requires steady power. If power fails, for example, in the middle of dyeing, the entire textile batch is written off. Our interlocutors at Security Mills and Styles International added that load shedding impeded the expansion of exports because it prevented companies from meeting the tight deadlines set by international clients.

¶16. (U) Sub-economic tariffs that do not reflect cost are at the root of ZESA's problems. With regard to the mining sector, the Chamber of Mines and ZESA signed a Memorandum of Agreement, with the blessing of the Exchange Control Authorities, for mining firms to pay for power in foreign exchange in return for uninterrupted power supplies. The arrangement is confined to the mining sector and does not address the general power distribution challenge, however.

¶17. (U) In order to boost electricity generation, the GOZ enacted legislation in 2003 that allows for independent power projects (IPP). However, the small number of projects that have been developed make a negligible contribution to the national grid.

Breakdown in Telecommunications

¶18. (U) According to a World Bank report, Zimbabwe's sole provider of fixed lines, TelOne, has about 332,000 fixed lines in servQ

HARARE 00000898 003 OF 003

At the official population estimate of 12 million people, this gives a low teledensity of about 2.8 percent; even if the population figure is significantly overstated, teledensity is low. TelOne is also operating equipment that has outlived its useful life. Moreover, there is a long waiting list of customers to be connected.

¶19. (U) Zimbabwe has about 1.3 million mobile subscribers, giving a penetration rate of 9 percent. However, service provision is poor with call completion rates between mobile networks estimated at less than 10 percent. During peak times, it is nearly impossible to make a call from one mobile network to another. Although the regulatory authority, the Posts and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ), is empowered to fine or withdraw a license if suppliers fail to meet agreed service levels, it has to prove that the limitations are not beyond the operators' control.

¶20. (U) International communications are achieved through two Intelsat satellite earth stations and two international digital gateway exchanges. Private operators are required to route at least out-going calls through the government-owned gateways. Difficulties in making payments to foreign suppliers due to foreignQange shortages have resulted in periodic disruptions to international connections.

¶21. (U) Fixed line reliability is poor primarily because of

antiquated equipment. Moreover, frequent power cuts disrupt the operations of telephone exchanges. As with most operations in Zimbabwe, the biggest constraint to expansion in the telecommunications sector is the shortage of foreign exchange. With the additional problem of a very low tariff regime, telecommunication services have declined sharply in recent years.

¶22. (U) Paramount Garment Works stated that poor communications constrained its operations. It was almost impossible to place international calls. In addition, some mobile service providers were not allowing clients to make international calls. Security Mills and Styles International concurred that telecommunications inadequacies were a major constraint to expanding their markets.

Macroeconomic Stabilization Vital

¶23. (U) Overall, all firms interviewed agreed that the deterioration in infrastructure had made their exports less competitive. However, they said the biggest constraint on export competitiveness was macroeconomic instability. Once this was addressed, and the exchange rate was determined by forces of supply and demand, they all felt that Zimbabwe's exports would become more competitive internationally. They did not see the soft issue of customs procedures as hindering exports, contrary to the 1990s when bureaucracy was regarded as a major deterrent to exporting.

MCCEE